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Monthly Economic & Capital Market Update

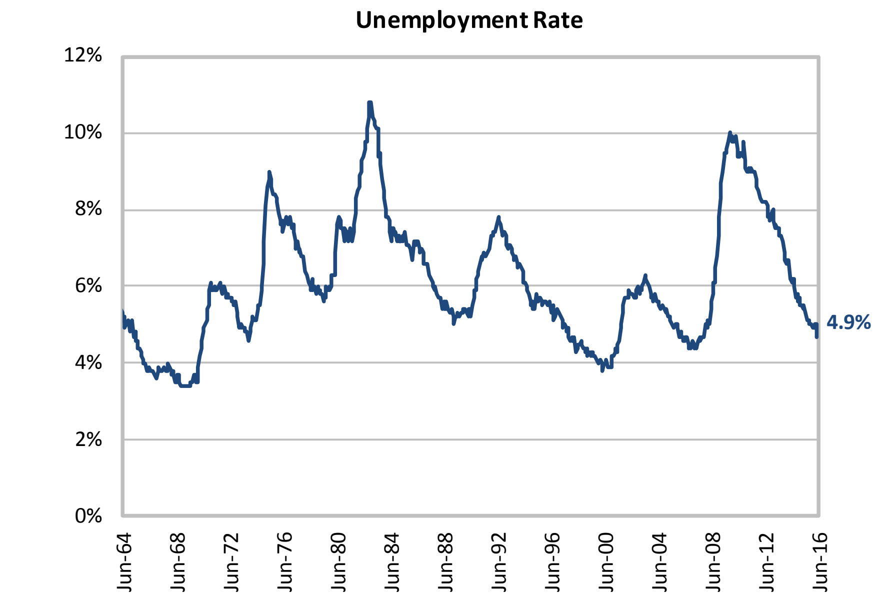
June 2016

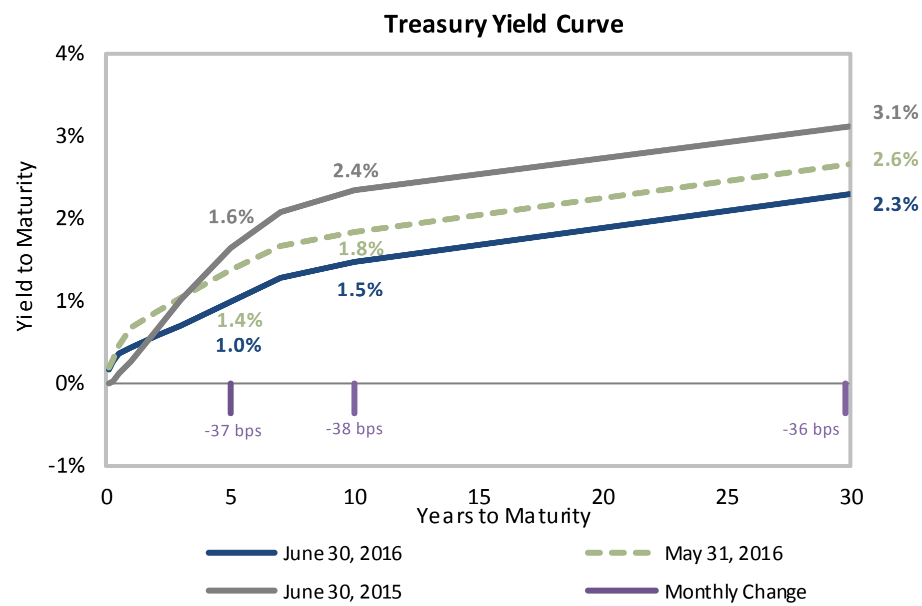
Economy

- The main economic event in June was the United Kingdom's referendum to remain or exit the European Union, commonly known as "Brexit." UK citizens' vote to exit the EU surprised markets, and global risk assets broadly experienced a short-term sell-off before recovering most losses at the end of the month. From an economic and political perspective, the results of the vote have increased uncertainty dramatically as the exit process will likely take place over several years and require a great deal of negotiation. In the aftermath of the Brexit vote, policy makers around the world stepped in to help calm the volatile markets, vowing to keep monetary policy accommodative for longer than previously expected. For example, at the end of May, financial markets were pricing in an approximate 50% chance of a Federal Reserve rate hike at the July FOMC meeting; following the Brexit vote, the probability of any rate hike occurring in 2016 dropped to below 10%. One of the main drivers of market performance over the past several years has been central bank intervention, which has pushed bond yields to all-time low levels and kept equity markets, particularly in the US, near all-time highs.
- The June employment report showed continued growth in the US labor market as employers added 287,000 jobs, well above market expectations of 175,000; June's employment gains were the largest in a single month since October 2015. Over the past three months, job gains have averaged 147,000 per month, lower than the 229,000 per month of 2015. Job growth has slowed compared to earlier in the economic expansion, but remains strong enough to put upward pressure on wages. For the 12 months ending June 2016, wages rose 2.6%, the highest wage growth the economy has seen over the course of the recovery. The unemployment rate rose slightly from 4.7% to 4.9% for the month as more workers rejoined the labor force, and the reports from April and May were revised upwards by a combined 19,000 jobs.
- Real GDP grew at a 1.1% annualized rate during the first quarter of 2016, according to the final estimate from the Bureau of Economic Analysis. While first quarter growth was slightly lower than Q4 2015's 1.4% growth, the Atlanta Federal Reserve's GDPNow model is forecasting an increase in growth to 2.4% in the second quarter of 2016.

Yield Curve

- The spread between 2-year and 30-year Treasuries narrowed 22 bps to 155 bps in June, below the 30-year average spread of 165 bps.





Growth Assets

June 30, 2016

Public Equities

- Despite increased volatility from the UK's vote to leave the EU, global equities ended the month down less than 1%. US large cap equities managed to close the month in positive territory and less than 1.5% away from an all-time high, while small cap stocks underperformed and closed slightly lower. International developed markets declined 3.4%, with European stocks falling 4.7% due to Brexit uncertainty. Emerging markets were the best equity performers during June, returning 4.0%.
- Master limited partnerships (MLPs) gained for the fourth straight month in June. Crude oil pipeline and natural gas pipeline MLPs performed well, gaining 7% and 5%, respectively. Gathering and processing MLPs continued their sharp upward recovery, rising 6% in June to bring their year-to-date gain to 22%. Shipping MLPs declined 5% during the month, but remain positive for the year-to-date period.

Public Debt

- Reversing on recent trends, high yield spreads increased by 28 bps during the month, the first monthly increase noted since March. CCC-rated securities were hit the most, increasing by 51 bps. However, commodity-related sectors continued a run of strong performance.
- Local currency emerging market debt posted a strong month after declining in May as commodity strength and declining developed market yields supported interest. Returns were driven by both currencies and rates.

Private Equity

- Purchase price multiples, as measured by S&P Leveraged Commentary and Data (LCD), for deals less than $50m in EBITDA moderated somewhat in the first quarter while the multiples for deals at the larger end of the market hit a record high of 11.2x; the volume of dry powder within the asset class continues to grow as many large institutional investors increase their allocation to the space, likely contributing to the high multiples that the larger end of the market is experiencing.

Private Debt

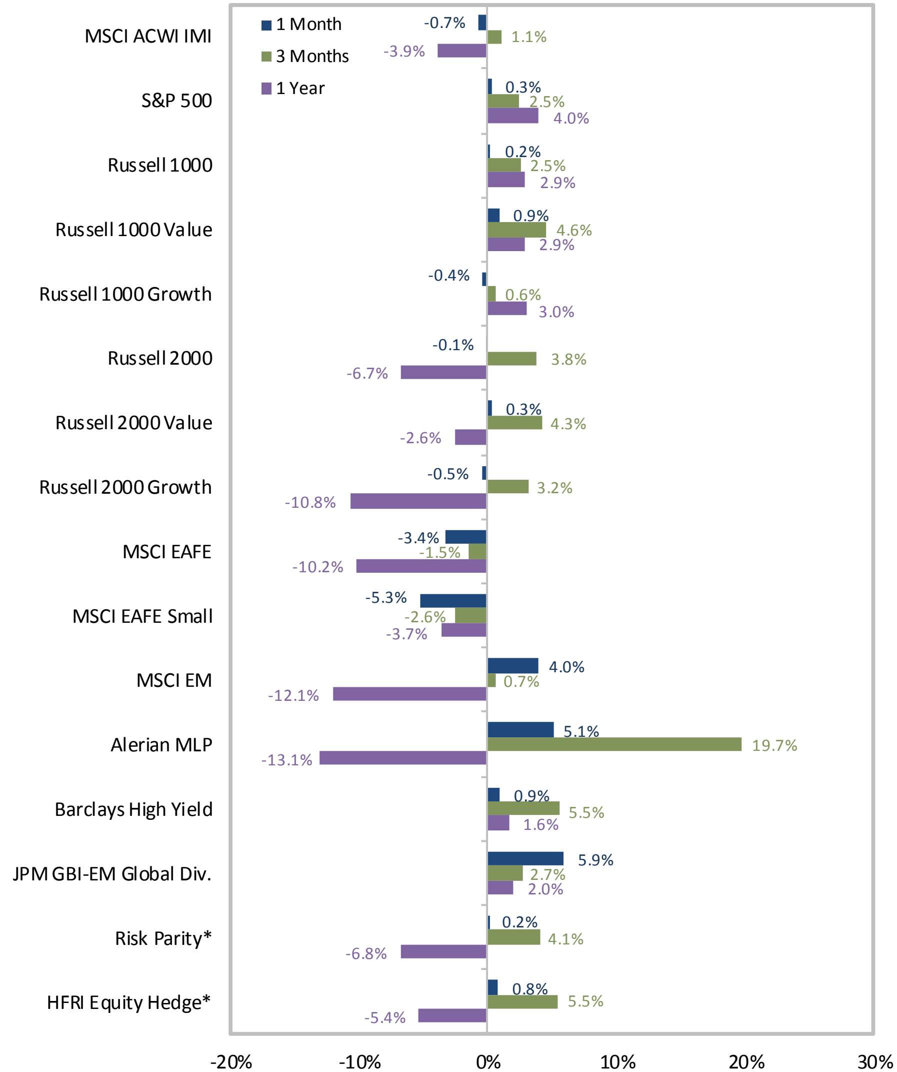
- Debt ratios were also bifurcated between deals less than $50m in EBITDA and deals greater than $50m in EBITDA – the average debt/EBITDA ratio for deals on the smaller end of the market dropped to 4.4x, the lowest multiple since 2011, while larger deals stayed constant with 2015 levels of 5.7x. Manager sentiment and deals completed within the first quarter also indicate that the market has repriced the risk premium over LIBOR for lending in sponsor-backed deals, suggesting these investments should garner a higher spread going forward than what was experienced for most of 2015.

Risk Parity

- Risk parity funds posted modest gains in May, with most of the gains coming from equities and developed world nominal bonds. Emerging market bonds and commodity allocations were slight detractors.

Growth Hedge Funds

- Equity long/short hedge funds were positive in May (0.8%), led by energy and technology allocations. Merger arbitrage and distressed debt strategies also contributed, while activists detracted.



* Data was not available at time of publication – returns are previous month's.
Note: Risk Parity returns are based on an internally comprised benchmark.
All returns are USD.

Income Assets
June 30, 2016

Public Debt

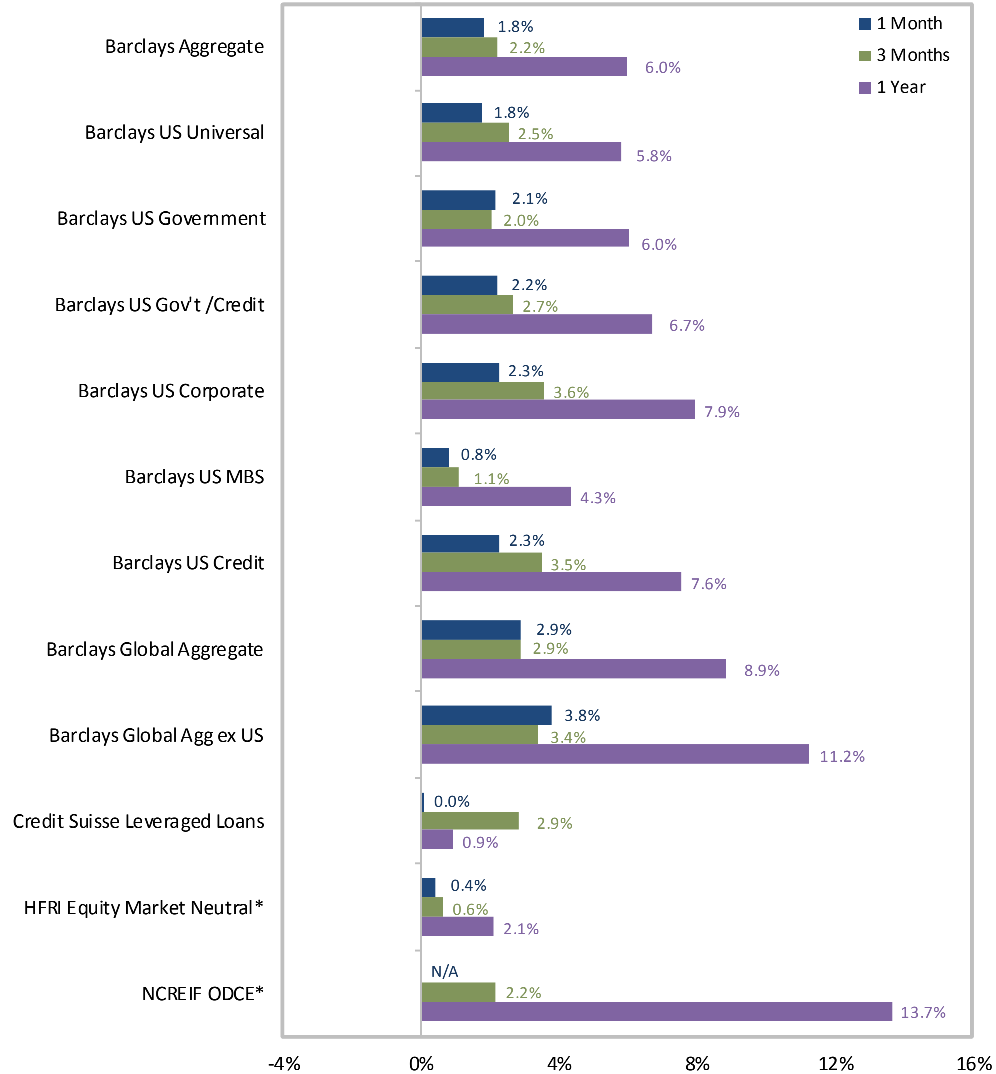
- Following the Brexit vote, the likelihood of a Fed rate increase in 2016 decreased dramatically. The drop in expected path of the Fed rate was reflected across the curve as the 10-year Treasury yield decreased 36 bps during the month. On the day after the Brexit vote, the 10-year yield declined by 17 bps.
- The investment grade corporate portion of the Barclays Aggregate Index returned 2.3% during June as falling Treasury rates boosted absolute returns. However, the option-adjusted spread for the investment grade corporate portion of the Index widened 7 bps during the month.
- Securitized assets struggled during June, underperforming duration-neutral Treasuries by 30 bps during the month. This was the third month of relative underperformance in 2016.
- International bonds returned 3.8% during the month as Brexit risk aversion boosted demand for bonds; the ECB's bond buying program also supported European rates and spreads.
- Bank loans were unchanged for the month as coupon payments were offset by reduced Federal Reserve rate hike expectations, lowering the demand for these floating rate instruments.

Relative Value Hedge Funds

- Income hedge funds were positive in May. Equity market neutral and relative value volatility strategies contributed, as well as all fixed income-related strategies across market segments.

Core Real Estate

- The return for the NCREIF ODCE Index for first quarter 2016 was 2.2%, with 1.1% from income and from 1.1% appreciation. While first quarter gains were lower than the 3.3% of Q4 2015, they fall into what Summit views as more "normalized" returns for this part of the cycle. Uncertainty in the pricing of CMBS bonds was one of the factors contributing to the lower quarter-over-quarter return.



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Diversification Assets

June 30, 2016

Inflation

- TIPS returned 2.1% in June as real yields rallied across the curve. The 10-year breakeven inflation expectation fell by 15 bps during the month to 1.4%. 5-year forward, 5-year inflation is hovering between 1.2% and 1.4% depending on the metric, a record low.

Deflation

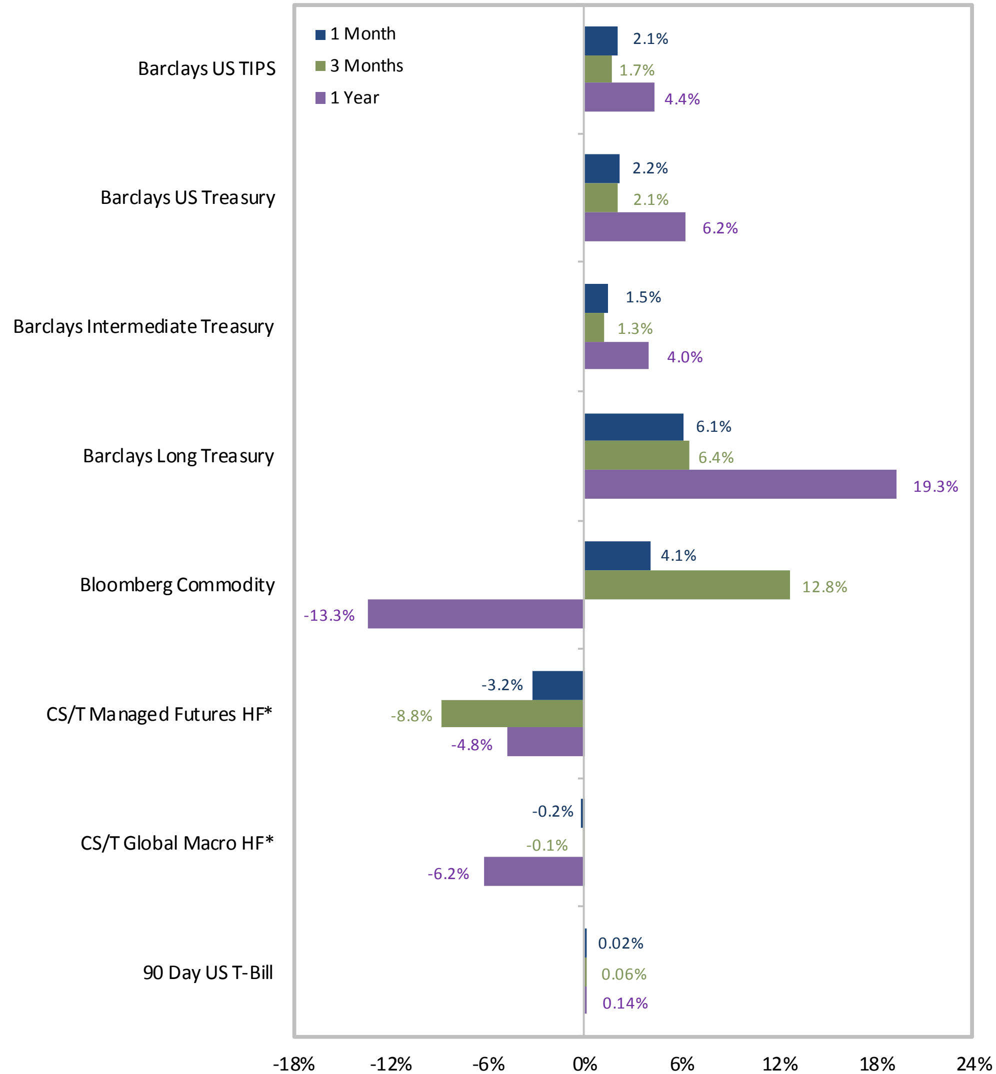
- The Barclays Long Treasury Index returned 6.1% as yields declined sharply at the long end of the curve. The 30-year Treasury ended June yielding 2.3%, over 30 bps lower than at the end of May. Most of the decline was over the two-day period following Brexit votes, with yields falling 27 bps over that time. Consistent with the current low growth and inflation environment, long-term bond yields remain near all-time lows.

Commodities

- The Bloomberg Commodity Index rose 4.1% during the month. Gains in metals and soft commodities were major contributors to the performance, while declines in select agriculture detracted from the Index. Energy showed mixed performance as natural gas soared 27.8% amid tightening supply, while WTI Crude oil lost 1.6% and gasoline was down 7.0%. Major metals such as gold, silver, and nickel advanced, following the Brexit vote. Soybeans continued to advance, gaining 8.9% on news of lower South American production expectations and strong overall demand.

Tactical Trading

- Diversification hedge funds were mostly negative in May. Managed futures/trend following strategies detracted more than global macro strategies for the month of May.



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